

Message Text

PAGE 01 STATE 295977

47

ORIGIN ARA-03

INFO OCT-01 ISO-00 /004 R

66011

DRAFTED BY: ARA/NC/V: TWSONANDRES

APPROVED BY: ARA/NC: MR. DEVINE

----- 058110

O 161817Z DEC 75

FM SECSTATE WASHDC

TO AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L STATE 295977

FOR DEPUTY ASSISTANT SECRETARY FISHLOW FROM ASSISTANT SECRETARY ROGERS

SUBJECT: VENEZUELAN PETROLEUM NATIONALIZATION

FOL SENT ACTION TO SECSTATE INFO JAKARTA JIDDA KUWAIT LAGOS
LIMA LONDON PORT OF SPAIN QUITO TEHRAN TRIPOLI VIENNA DHAHRAN
OECD PARIS DEC 12 1975 FROM CARACAS

QUOTE C O N F I D E N T I A L CARACAS 12985

E.O. 11652: GDS

TAGS: ENRG, PFOR, VE

SUBJECT: THE OIL PRICE NEGOTIATIONS

REF: CARACAS 12812

1. BEGIN SUMMARY. THE GOV HAS REACTED SHARPLY TO THE PETROLEUM INTELLIGENCE WEEKLY ARTICLES OF DECEMBER 1 AND 8, WHICH REVEALED DETAILS OF THE TECHNICAL SERVICE AND OIL PURCHASE CONTRACT NEGOTIATIONS. MINES MINISTER HERNANDEZ STATED THAT THE PRICE PROPOSALS ARE NOT SUBJECT TO COUNTER OFFERS. THE MINES MINISTRY HYDROCARBONS DIRECTOR EXPRESSED PESSIMISM ABOUT THE OUTCOME OF THE PRICE NEGOTIATIONS TO THE PETROLEUM ATTACHE AND STATED THAT IT WAS HIS OPINION THAT VENEZUELA SHOULD BE PREPARED TO SHUT IN PRODUCTION
CONFIDENTIAL

PAGE 02 STATE 295977

RATHER THAN ACCEPT LOWER PRICES. OIL COMPANIES ARE HOLDING DAILY MEETINGS ABOUT THE MINES MINISTER AND MINISTRY OFFICIALS IN AN EFFORT TO BUILD A CASE FOR THEIR EXPECTED COUNTER PROPOSALS ON PRICES. MOBIL OIL CONFIRMED THAT IT HAS A HEADS OF AGREEMENT ON PRICES FOR A SMALL QUANTITY OF REFINERY PRODUCTS. THE VIEW HERE IS

THAT THE GOV WILL NOT BUDGE ON ITS PRICES UNTIL AFTER RECEIVING FORMAL REPLIES FROM THE OIL COMPANIES TO ITS PRICE OFFERS AND MAY DELAY ANY FINAL NEGOTIATIONS UNTIL AFTER THE OPEC MEETING. THE GOV ALSO MIGHT FOR A VARIETY OF REASONS GO INTO THE FIRST QUARTER OF 1976 WITHOUT CONCEDED ANY GROUND ON THE PRICES. END SUMMARY.

2. READING TO THE PETROLEUM INTELLIGENCE WEEKLY DECEMBER 8 ARTICLE ON PROPOSED VENEZUELAN OIL PRICES, MINES MINISTER VALENTIN HERNANDEZ TOLD THE PRESS ON DECEMBER 10 THAT THE GOV PRICE OFFER IS NOT SUBJECT TO COUNTER OFFERS. THE MINISTER'S COMMENTS WERE CATEGORIZED AS AN OFFICIAL POSITION AND PROMINENTLY REPORTED ON THE FRONT PAGE OF EL NACIONAL ON DECEMBER 11. HERNANDEZ ADMITTED THAT THE GOV HAD MADE OIL PRICE OFFERS TO THE OIL COMPANIES, AND THAT THE COMPANIES WERE CONSIDERING COUNTERPROPOSALS. HE ATTRIBUTED THE PIW STORY TO A BREACH OF CONFIDENCE ON THE PART OF AN OIL COMPANY, SINCE THE OIL PURCHASE NEGOTIATIONS WERE BEING CONDUCTED IN PRIVATE.

3. HERNANDEZ ADDED THAT THE GOV PRICE OFFERS WERE ESTABLISHED WITHIN THE PARAMETERS ESTABLISHED BY OPEC, AND VENEZUELA WILL NOT PERMIT THE OPEC PRICE STRUCTURE TO BE WEAKENED BY AGREEING TO COUNTERPROPOSALS. THUS, OIL COMPANIES DESIRING TO BUY VENEZUELAN OIL AFTER JANUARY 1 WILL HAVE TO DO SO AT THE FIXED PRICES THEY HAVE ALREADY BEEN GIVEN.

4. MINES MINISTRY HYDROCARBONS DIRECTOR, AREVALO REYES, WAS UNCHARACTERISTICALLY PESSIMISTIC CONCERNING OIL PRICE NEGOTIATIONS IN A MEETING WITH THE PETROLEUM ATTACHE ON DECEMBER 10. HE ESTIMATED THE ODDS FOR ACCEPTANCE OF THE GOV PRICE PROPOSALS BY THE OIL COMPANIES AT NO BETTER THAN 50 - 50 AT THE MOMENT. REYES STATED HIS POINT OF VIEW IS THAT IT WOULD BE BETTER TO SHUT IN PRODUCTION NOT TAKEN UP AT THE PROPOSED PRICES, RATHER THAN LOWER THE PRICES JUST TO OBTAIN LARGER VOLUME SALES. HE INDICATED THAT OIL COMPANIES HAD OFFERED TO LIFT A TOTAL OF 2.3 MILLION B/D CONTINGENT ON AN ACCEPTABLE PRICE LEVEL, BUT THE MINISTRY NEVER CONFIDENTIAL

PAGE 03 STATE 295977

INTENDED TO ALLOCATE MORE THAN 2 MILLION B/D FOR EXPORT. GIVEN THE PRESENT OIL COMPANY STANCE ON THE PRICE OFFERS, REYES SAID HE WOULD NOT BE SURPRISED IF LIFTINGS WERE NO HIGHER THAN 1.7 MILLION B/D AT THE BEGINNING OF 1976.

5. REYES CONTINUED THAT THERE ARE SOME PERSONS ADVOCATING THAT VENEZUELA BE PREPARED TO SHUT DOWN TO ONE MILLION B/D TO PROTECT THE PRICE LEVEL, BUT HE DID NOT THINK THIS WOULD HAPPEN. HE POINTED OUT THAT CERTAIN LEVELS OF PRODUCTION MUST BE SUSTAINED IN ORDER TO INSURE OPERATIONAL EFFICIENCY. FOR REFINERY THROUGHPUT, REYES STATED THAT THE MINIMUM EFFICIENT LEVEL IS 800,000 B/D. IF 1976 LIFTINGS START OFF AT ONLY 1.7 MILLION B/D, REYES INDICATED THAT THIS WOULD BE A SHOCK TO THE VENEZUELAN PUBLIC, BUT THAT IT MIGHT HAVE A BENEFICIAL EFFECT OF

BRINGING HOME THE REALITIES OF SELLING OIL IN THE INTERNATIONAL MARKET.

6. REYES CONFIRMED THAT DECEMBER OIL PRODUCTION IS HOVERING AROUND 1.7 MILLION B/D AT THE MOMENT, AND THAT IT COULD GO DOWN TO 1.5 MILLION B/D SINCE RESIDUAL FUEL OIL IS NOT SELLING AND COMPANIES ARE NOT LIFTING. HE IMPLIED THAT COMPANIES WILL NOT BE PERMITTED TO KEEP THEIR STORAGE TANKS FULL IN ANTICIPATION OF THE ATTRACTIVE CASH PAYMENT FOR INVENTORIES THEY ANTICIPATE AT YEAR'S END.

7. THE OIL COMPANIES ARE HOLDING DAILY MEETINGS WITH THE MINES MINISTER AND THE PRICE COMMISSION. CREOLE OFFICIALS, IN FACT, HAD TWO MEETINGS ON DECEMBER 10. CREOLE, SHELL, IPC AND OTHER COMPANIES ALL CLAIM THAT THEY ARE STILL FAR APART ON PRICE. MOBIL VENEZUELA PRESIDENT, RICHARD HOWE, CONFIRMED TO THE PETROLEUM ATTACHE THAT HIS COMPANY DOES HAVE A "HEADS OF AGREEMENT" WITH THE GOV ON PRICES FOR REFINERY PRODUCTS. HOWEVER, HOWE STRESSED THAT THIS INVOLVES LESS THAN 60,000 B/D, AND THE DETAILS ARE STILL TO BE WORKED OUT. HOWE ADDED THAT MOBIL HAS NOT AS YET BEGUN NEGOTIATIONS ON A TECHNICAL SERVICE CONTRACT. HIS COMPANY IS STILL DRAFTING ITS PROPOSAL FOR SUCH A CONTRACT. HOWE SAID THE GOV IS AWARE THAT MOBIL IS NOT SATISFIED WITH A PROPOSED 10 CENT BARREL FEE, AND THAT MOBIL DOES NOT INTEND TO MAKE AVAILABLE ON AN UNLIMITED BASIS SOPHISTICATED TECHNOLOGY FOR A LESSER FEE THAN THAT OFFERED TO EXXON AND SHELL. HOWE SPECULATED THAT IF SAUDI ARABIA WAS MADE TO REALIZE THAT ONE OF THE ARAMCO PARTNERS AGREED TO 10 CENTS IN CONFIDENTIAL

PAGE 04 STATE 295977

VENEZUELA, THE OTHER PARTNERS WOULD BE VULNERABLE TO THE QUESTION OF WHY THEY DESERVE MORE. THIS IS AN INTERESTING REVERSE TWIST TO THE PRECEDENT QUESTION, WHICH HOWE WAS IMPLYING MIGHT COME TO HAUNT EXXON.

8. RETURNING TO THE SUBJECT OF PRICES, HOWE VENTURED TO PREDICT THAT IF THE GOV REFUSES TO NEGOTIATE ITS PRICE OFFER, THE COMPANIES THAT MUST BUY OIL, PRINCIPALLY EXXON, SHELL AND GULF, WILL SIMPLY TAKE LESS THAN THEY ORIGINALLY INDICATED. THUS, HOWE TENDS TO COINCIDE WITH THE AREVALO REYES VIEW THAT LIFTINGS MAY BE WELL UNDER 2 MILLION B/D BEGINNING IN JANUARY. HOWE ADDED THAT MINES MINISTRY OFFICIALS ARE FURIOUS OVER THE LEAKS OF THE TECHNICAL SERVICE AND PRICE CONTRACT NEGOTIATIONS T PIW, AND ARE TRYING HARD TO FIND OUT THE SOURCE.

9. SHELL OIL COMPANY SOURCES STATE THAT THEIR COMPANY HAS SERIOUS PROBLEMS WITH THE PROPOSED PRICES. SHELL HAS STANDING OIL SUPPLY CONTRACTS WITH CUSTOMERS THAT GO WELL BEYOND THE NATIONALIZATION DATE. IN PARTICULAR, THESE CUSTOMERS INCLUDE SHELL CANADA AND THE DOMINICAN REPUBLIC. SHELL CONTENTS THAT THE GOV GAVE CANADIAN OFFICIALS ASSURANCES SEVERAL MONTHS AGO THAT THE EXISTING CONTRACTS WOULD BE HONORED, BUT THIS WILL NOT BE POSSIBLE IF THE GOV INSISTS ON THE NEW PRICES. ALBERTO QUIROS, SHELL VENEZUELA

PRESIDENT, TOLD THE MINES MINISTRY THAT THE PROPOSED NEW PRICES WOULD FORCE HIS COMPANY TO INCREASE ITS PRICE TO THE DOMINICAN REPUBLIC BY \$1.60 PER BARREL. QUIROS ASKED THE DIRECTOR GENERAL OF THE MINISTRY IF THE GOV WAS PREPARED TO SEND THE CABLE TO THE DOMINICANS ANNOUNCING THE PRICE INCREASE. ON THE PENDING C.I.F. DEAL WITH ASIATIC PETROLEUM COMPANY IN NEW YORK, SHELL'S UNDERSTANDING WAS THAT ASIATIC WOULD ACT AS THE AGENT FOR PETROVEN. ASIATIC WOULD BID ON FUEL OIL SALES, QUOTING C.I.F. TERMS. HOWEVER, IF SUCH QUOTES HAVE TO NET BACK TO A FIXED PRICE, ASIATIC WILL NOT HAVE THE FLEXIBILITY TO COMPETE ON THE OPEN MARKET ON BEHALF OF PETROVEN. THUS, SHELL DOES NOT APPEAR TO BE IN A POSITION TO BE THE STALKING HORSE FOR A PRICE AGREEMENT, AS IT WAS IN THE CASE OF THE COMPENSATION AGREEMENTS. SHELL PRODUCTION IS CURRENTLY DOWN TO ABOUT 400,000 B/D, INCLUDING ABOUT 90,000 B/D OF RESIDUAL FUEL OIL. AT THE BEGINNING OF THE WEEK, SHELL REQUESTED APPROVAL TO SHUT IN ANOTHER 60,000 B/D AND THE REQUEST WAS READILY GRANTED WITH THE SUGGESTION THAT THE COMPANY CONSIDER SHUTTING IN EVEN MORE.
CONFIDENTIAL

PAGE 05 STATE 295977

10. INTERNATIONAL PETROLEUM COMPANY REPRESENTATIVE, JOHN DAILEY, COMMENTING ON THE PRICE OFFERS, SAID THAT THE COMPANIES CANNOT AGREE TO THE PROPOSED LEVELS FOR THE SIMPLE REASONS THAT IT IS IMPOSSIBLE TO PASS SUCH INCREASES ALONG TO THE BUYERS UNDER PRESENT MARKET CONDITIONS. DAILEY NOTED THAT VENEZUELA'S COMPETITIVE SITUATION WILL DETERIORATE AT THE LOWER LEVEL OF PRODUCTION, SINCE PRODUCTION COSTS ARE RELATIVELY FIXED AND WILL RISE AS PRODUCTION DECLINES.

11. COMMENT - THE GOV IS MAINTAINING A FIRM PUBLIC AND PRIVATE POSTURE OF BEING DEAD SERIOUS ABOUT THE PROPOSED PRICES. EVEN WHILE BUILDING A CASE FOR COUNTER OFFERS, THE OIL COMPANIES DO NOT EXPECT THE GOV TO GIVE ANY GROUND BEFORE THE FIFTEEN DAY PERIOD ENDS ON DECEMBER 16 WHEN COMPANIES MUST REPLY TO THE OFFERS. THE GOV WILL OBVIOUSLY WANT TO KNOW WHAT QUANTITY OF OIL IT CAN SELL AT THE OFFERED PRICE. THE GOV REACTION TO COUNTERPROPOSALS IS NOT EXPECTED UNTIL MINES MINISTER HERNANDEZ RETURNS FROM THE OPEC MEETING. HE IS EXPECTED TO BE AWAY FROM VENEZUELA FROM DECEMBER 17 UNTIL DECEMBER 27. THE SPECULATION IS THAT VENEZUELA PLANS TO ELICIT SUPPORT FROM THE OTHER OPEC MEMBERS BY DEMONSTRATING THAT IT IS CUTTING PRODUCTION IN ORDER TO SUSTAIN THE PRICE OFFER.

12. THERE IS ALSO A BODY OF OPINION HERE WHICH SUPPORTS THE THEORY THAT VENEZUELA MAY HOLD TO THE PRICE OFFER EVEN IF IT MEANS A ROUGH FIRST QUARTER IN 1976, GAMBLING THAT ECONOMIC RECOVERY AND WINTER WEATHER MAY REQUIRE THE OIL COMPANIES TO INCREASE LIFTINGS. ALSO, MANY CARIBBEAN REFINERIES ARE GEARED TO PROCESSING A SPECIFIC RECONSTITUTED VENEZUELAN CRUDE OIL, AND IT WOULD BE COSTLY TO CONVERT THE REFINING PROCESSES QUICKLY IN ORDER TO RECEIVE OTHER CRUDES.

13. THE GOV ALSO HAS THE COMPENSATION LEVER WHICH THE OIL COMPANIES

CANNOT IGNORE IN THE PRICE NEGOTIATIONS. THE COMPANIES FEAR THAT ANY COMPANY REFUSING TO LIFT OIL MIGHT DISCOVER ITS COMPENSATION BONDS HELD IN THE GUARANTY FUND SUDDENLY SUBJECTED TO SUBSTANTIAL DEDUCTIONS FOR OIL FIELD MAINTENANCE, BACK TAX CLAIMS, ETC. BUT ALONG WITH THE STICK THERE IS A CARROT--IT IS OUR UNDERSTANDING THAT THE GOV HAS RESTORED THE CONDITION IN PROPOSED TECHNICAL SERVICE CONTRACTS WHEREBY OIL COMPANIES WILL BE ABLE TO PAY FOR 2.5 PERCENT OF 1976 OIL LIFTINGS WITH COMPENSATION BONDS. WE
CONFIDENTIAL

PAGE 06 STATE 295977

HAVE NOT VERIFIED THIS LATTER CHANGE OF POSITION, BUT SEVERAL RELIABLE OIL COMPANY SOURCES INDICATE THIS IS BACK IN THE PACKAGE.
END COMMENT.
ASENCIO UNQUOTE INGERSOLL

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE295977
Document Source: ADS
Document Unique ID: 00
Drafter:
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750437-0406
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751291/baaaaddv.tel
Line Count: 235
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 08 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 APR 2003 by ShawDG>; APPROVED <06 OCT 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ENRG, PFOR, VE
To: PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006